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TAX REFORM — PART IV

The tax-exempt foundations are creatures of the federal income-tax system. The financing of charitable, educational, and other worthy activities is the ostensible purpose for which foundations are given exemptions from federal taxation; and most of them do finance such activities. But tax-avoidance for the rich is the *reason* for the creation of foundations — avoidance of federal income taxes and of federal death (inheritance, or estate) taxes.[1,2,3]

Here is how the gargantuan tax-dodge works.

A man owns $100 million worth of stocks which were worth only $10 million when he acquired them. He has never paid any capital-gains tax on the $90 million that his stocks have gained in value, because he has not sold them to take his profit. In addition to dividend income from the stocks, he has an annual taxable income of $1 million.

He creates a tax-exempt foundation and gives shares of his stocks to it. The present value of the gift to his own foundation may be deducted, for federal income-tax purposes, from his taxable $1 million income. He can give the foundation just enough each year to avoid paying tax on his $1 million annual income. Eventually, he may give to his foundation all of the $100 million dollars worth of stocks — thus disposing of them without paying any capital-gains tax. If he had sold the stocks, he would have had to pay the government one-fourth of the $90 million which the stocks had gained in value since he acquired them — $22.5 million.

By giving $100 million to his own foundation, he avoids paying income tax every year on a $1 million taxable income, and avoids paying $22.5 million in capital-gains tax. He no longer owns the $100 million he gave away, but still has effective control of it.

He can appoint himself, friends, and relatives to the board of trustees which runs the foundation. The trustees can appoint him and his friends and relatives to foundation positions. The foundation may own

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country clubs, summer resorts, winter resorts, yachts, airplanes, fleets of automobiles — all of which are available for free use by the donor and his friends who perform "services" for the foundation. The foundation may invest in profit-making businesses, without paying taxes on the profits.

When the creator of the foundation dies, his fortune is not dissipated by death taxes. It remains intact, tax free, to be controlled and used by and for the original donor's heirs and friends — or by a self-perpetuating clique of cronies who constitute the board of trustees.

Thus, a foundation not only enables the super-rich to escape income and estate taxes, but also sets aside vast amounts of tax-free wealth for the exclusive use of a small, select group.

The foundation must give away and spend some money on the activities for which it was ostensibly created and given tax exemption. This giving and spending buy it immense prestige and public support; but the total of what it thus disburses is much less than its tax-free investment income. Its capital assets, far from being distributed for worthy causes, grow steadily larger.

These general assertions about foundations can be illustrated by reference to particular cases.

Creation of the Ford Foundation saved the Ford family an estimated $1.6 billion in death taxes.[4] If the fortunes of Henry Ford and Edsel Ford had been left to heirs, the federal government would have taken most of it in death taxes. Members of the family would have had to sell most of their shares in Ford Motor Company to pay the taxes, and family control of the company would have been lost.

By giving millions of shares of their stock to the tax-exempt Ford Foundation, Edsel Ford (died, 1943) and Henry Ford (died, 1947) not only enabled their heirs to avoid inheritance taxes, but also to retain control of the Ford Motor Company. The shares given to the foundation were mostly non-voting shares. The Fords and their close associates were left with most of the voting shares. The family and friends also controlled the multi-billion-dollar tax-exempt foundation.

Super-rich families (like the Fords, Rockefellers, Carnegies, Mellons) generally set up not just one tax-free foundation per family, but several.

No one knows how many tax-free foundations the Kennedy family has. Apparently, every Kennedy child is given a tax-free foundation and a trust at birth. Thus, the Kennedys use and control vast wealth, but relatively little of it is in their own names and subject to taxes.[3]

Even the compound of Kennedy homes at Hyannis Port, their winter resorts at Miami, their family yacht, and Edward Kennedy's airplane are said to be owned by Kennedy foundations and trusts.[3]

Thus, Senator Edward Kennedy and his jolly companions can take a cruise to the Bahamas on the family yacht, with all expenses paid by a tax-exempt Kennedy foundation, the justification being that the Senator and friends are performing some kind of service for the foundation.

When Jacqueline Kennedy was a member of the favored clan, she often joined the jet-set in Majorca and other expensive, faraway places — her own expenses being paid by the Rose Kennedy Foundation for Retarded Children. Jacqueline's fun in the sun was technically "research work" for the Foundation.[3]

Some of the Kennedys' most prosperous businesses are owned by their tax-free foundations. The Merchandise Mart of Chicago (which produces more income than any other building in the nation) is the property of the Joseph P. Kennedy, Jr. Foundation — and pays no corporate income tax.[3]

Lyndon B. Johnson has a tax-exempt Johnson City Foundation, which he and Mrs. Johnson created as a "charitable trust" in 1956, with a donation of $100. Since then, Johnson business enterprises have contributed millions of tax-free dollars to the foundation. The Johnson City Foundation now has substantial holdings and a

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huge annual income, but has never contributed more than a small fraction of its income to charitable causes.[5] Though the Johnsons do not own this great wealth that escaped taxation when it was acquired, and still escapes taxation on its income, they and their friends control its use for their own benefit.

Benefactors and beneficiaries of huge foundations (who have their own wealth safely sequestered from tax collectors) are, for the most part, powerful lobbyists for more federal taxing and spending that piles more taxes on middle-income Americans.

Internal Revenue Service supervision of tax-exempt foundations is so loose that it is virtually non-existent in many instances.[4]

Many "philanthropists" set up tax-free foundations which they never bother to tell the government about. On July 21, 1964, C. Douglas Dillon (then Secretary of the Treasury) testified that the Treasury Department does not know how many tax-free foundations are in existence.[3]

There are probably about 100,000 tax-exempt foundations operating in the United States.[3] In his book, *The Great Tax Fraud*, Dr. Martin Larson estimates that the tax-avoidance achieved by the foundation system totals more than $50 billion a year. This load is shifted to middle-income taxpayers who have no tax-free shelters for their income.

The foundations, which thus cost taxpayers $50 billion a year, make grants which total only $1.5 billion a year.[6]

If evaluated strictly on a bookkeeping basis — matching the amounts of money contributed for causes, with the amounts of money they shelter from taxes — the foundations are a bad bargain for the country.

Yet, the tax-dodging of foundations and related organizations is much less harmful to our society than some of the causes and activities which they sponsor and finance with tax-free wealth. Foundations do finance many good works. But all of their good works are more than offset by the treason and subversion financed by some of them.[1,3]

The new-left political movement (which is essentially a pro-communist guerrilla warfare operation intended to destroy everything decent in American society) was launched in August, 1965, at Santa Barbara, California — under the auspices of the tax-exempt Center for the Study of Democratic Institutions, which is financed by the tax-exempt Fund for the Republic, which was created in 1954 by a $15 million grant from the tax-exempt Ford Foundation.[7,8]

In August, 1967, the Center for the Study of Democratic Institutions sponsored a three-day conference of student militants who fabricated plans for violent disruptions intended to destroy American universities.[9,10]

Indeed, the tax-exempt foundations — Rockefeller, Ford, Mellon, Carnegie, Twentieth Century Fund, Guggenheim, Alfred P. Sloan, Commonwealth Fund, and the like — have financed the socialist revolution in the United States. Guidance, and a canopy of respectability, have been provided the revolution and revolutionaries by other tax-exempt organizations interlocked with the foundations.[1]

The Council on Foreign Relations (CFR) is the control center of this vast complex of tax-free groups. Members of the CFR and interrelated organizations hold positions of power in government, big business, big unions, education, publishing, broadcasting, banking, advertising, entertainment, civic groups, and church organizations. They set the policies of the federal government, pressure or propagandize Congress into authorizing the policies, and persuade the public to accept the policies.[1]

The combine of tax-exempt organizations has become, in some ways, more powerful than the government of the United States. The Treasury Department cannot be moved to make any meaningful investigation of foundations, because the CFR combine that controls the foundations has too much influence over the executive branch of

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government. Two different committees of Congress (one Democrat-controlled, and one Republican-controlled) have tried to investigate the big tax-exempt foundations. Both committees were subjected to ridicule and vicious denunciation, not just by the official Communist Party press, but by other members of Congress, by spokesmen for the executive branch of government, and by respected publishing and broadcasting firms which are run by members of the CFR combine.[1,3]

Every significant movement to destroy the American constitutional Republic has been financed, in whole or in part, by tax-exempt organizations, which are generally believed to be benefactors of our society.

The Tax Reform Act of 1969 has provisions dealing with the foundation problem. The House version of the Tax Reform Act levied a 7½% tax on investment incomes of foundations, required them to distribute their investment income currently, forbade a foundation from owning more than 20% of a corporation's voting stock, prohibited foundations from spending money on lobbying and electioneering (including voter-registration drives), restricted self-dealing transactions between a foundation and its benefactor, and imposed a few other restrictions.

The Senate Finance Committee cut the House-approved tax on foundations in half, by eliminating the 7½% tax on investment incomes, substituting a miniscule tax (1/5 of 1%) on foundation assets. The Senate Finance committee would prohibit foundations from financing voter-registration drives, but allow them to continue other political activity in which they now engage. And the Senate committee softened other House-approved restrictions on foundations.

Congress should not enact such a wrist-slapping, partial measure. Foundations ought to be abolished, through abolition of the income-tax system that created them. Until that is accomplished, all foundations should be required to pay corporate income taxes, and other taxes, exactly as business organizations are required to pay.

NEXT WEEK: More on tax reform.

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FOOTNOTES

(1) *The Invisible Government*, Dan Smoot
(2) *Foundations: Their Power and Influence*, Rene A. Wormser
(3) "Swindle, Treason, and Dodge," Gary Allen, *American Opinion*, Nov. 1969
(4) *The Great Tax Fraud*, Martin Larson
(5) "A Banking Empire in Lyndon Johnson's Future?" *U. S. News & World Report*, July 24, 1967
(6) *The Rich and The Super-Rich*, Ferdinand Lundberg
(7) *Dan Smoot Report*, Nov. 6, 1967
(8) Article by Alice Widener, *Barron's*, Aug. 28, 1967
(9) *Dan Smoot Report*, Oct. 30, 1967
(10) *Los Angeles Times*, Aug. 25, 1967, part I, p. 3

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